

Japanese Carbon and Alloy Flat Products Exclusion Request

Product Category: Hot-Rolled Products (#3)

(a)	Product Designation/HTS	<u>NST490 for CRT Frames</u> 7226.91.5000
(b)	Product Description	Hot Rolled steel Plate in Coil Size: 5.0MM x 533.5MM x Coil C : 0.11% MIN - 0.17% MAX Si : Equal to or less than 0.10% Mn : 0.30% MIN - 0.60% MAX P : Equal to or less than 0.025% S : Equal to or less than 0.025% Mo : 0.20% MIN - 0.50% MAX V: 0.04% MIN - 0.11% MAX Al: 0.02% MIN - 0.08% MAX Yield strength : Equal to or exceeding 400N/mm ² Tensile strength : 490 N/mm ² MIN - 610 N/mm ² MAX Elongation : Equal to or exceeding 22%
(c)	Basis for Exclusion	See text below
(d)	Names and Location of U.S. and Foreign Producers	See Attachment A
(e)	U.S. Consumption	See Attachment B
(f)	U.S. Production	See Attachment B
(g)	Substitutable Products	See Attachment C

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Willkie Farr & Gallagher

NST490 has no parallel in the United States as it is a newly designed steel that was developed specifically for Sony to use in its televisions. It has unique properties that make it a stronger and a better quality product for this use. NST490 should not be subject to quotas or increased tariffs as it does not injure the domestic industry.

NST490 is not available from domestic suppliers in the United States. It was jointly developed by [] and Sony Electronics for use in Sony's televisions. This is both a higher grade of steel and is stronger than the SCM415.¹ The NST490 was developed for Sony's [] cathode ray tube (CRT). This larger size of CRT exerts a greater amount of pressure on

¹ SCM415 is used in other sizes of Sony's CRTs. It is not a substitute for the NST490 used in the [] CRT. However, the SCM415 (modified) and the NST490 are believed to be substitutable. The SCM415 (modified) has not yet been certified for use by Sony. Japanese Respondents have requested exclusion of all three products: NST490, SCM415 and SCM415 (modified).

the steel, so much so that other types of steel would deform under that pressure.² John Halac, the Purchasing Supervisor for Sony in San Diego, explains:

The NST490 is used to manufacture the A-member of the frame. This is a sheet of solid metal that is stamped into the frame shape. When the aperture grill is welded to the frame, the frame is mechanically compressed. It needs to be able to snap back to tighten the aperture grill and maintain adequate tension. The manufacturing process requires consistent steel with a good memory, meaning it will return to its original form after compressed. This steel also must have superior thermal properties to allow it to withstand heat fluctuations.³

The superior ability of the NST490 to withstand higher pressures is not the only reason Sony requires this particular steel. It also has magnetic properties that are more forgiving. Each of the steel's particular magnetism effects the movement of the electrons in the CRTs. NST490's magnetic properties are especially suitable for this use. If another steel were developed that met Sony's specifications, Sony would have to redesign a significant part of the CRT to work with it and this would increase their costs of production.

A third quality that is unique to the NST490 is that it has superior outgasing as compared to other types of steel. Over time, steel naturally begins to deteriorate and emit chemicals. These chemicals cause the CRT to malfunction and eventually stop working. With NST490, outgasing is reduced, increasing the longevity of the CRT. Because of the uniqueness of the NST490, Sony pays at least [] more for this than it would for the SCM415.⁴

Currently the NST490 is the only steel that Sony has certified and can use for its [] CRT. One of Sony's suppliers is beginning to test the SCM415 (modified) but that will take up to a year to finish the certification process. Sony must be able to import this steel to continue its production of its [] CRT. Sony would lose a significant portion of its business if it were forced to pay higher duties on this steel. Mr. Halac explains:

We consign our CRTs to a Sony television assembly facility in Mexico. The televisions are then imported into the U.S. duty free because the CRTs are NAFTA qualifying. Currently there are [] other locations in the world where Sony makes the [] CRT. They are []. If the duty on our materials went up by 40% we would lose a significant portion of our business to those [] other plants. When our costs rise, we must charge more for our CRTs and this would cause the Mexican manufacturing plant to buy more CRTs from our []

² See Affidavit of John Halac, Purchasing Supervisor of Sony Electronics, San Diego (**Attachment D**).

³ *Id.*

⁴ *Id.*

competitors. Also, the imported CRTs would not qualify for NAFTA eligibility treatment, therefore, Sony and ultimately the U.S. consumer would be subjected to normal U.S. duties on finished televisions imported from Mexico.

It is important to note that Sony buys several types of specialty steel for its CRTs. If increased tariffs were placed on all of these, the ramifications to Sony's cost of production would be severe, possibly even forcing them to shut down their [] CRT production lines. NST490 is only available from Japan and there is no substitute in the United States. These imports do not injure any portion of the domestic industry as there is no domestic industry manufacturing this product. NST490 should be excluded from any remedy in this investigation.

Sony Electronics is particularly vulnerable to the potential decisions of this case. It purchases five types of specialty steel and must be able to import these products to continue production of its CRTs.⁵ Sony manufactures CRTs in both Mount Pleasant, Pennsylvania and San Diego, California. In those two facilities Sony has over [] employees, and purchases from over 1,200 domestic suppliers.⁶ Currently, Sony Electronics is the only domestic manufacturer of direct view televisions in the United States. There used to be 34 other television manufacturers in the United States in 1990. However, a vast majority of them have relocated their facilities in Mexico where the labor is significantly cheaper and where they pay only [] the duty rate on their imports due to a special program called PROSEC that has significantly reduced duties on Non-NAFTA parts imported into Mexico.⁷ If a 40% tariff were placed on Sony's imports, they would lose over [] a year.⁸ Because of the intense competition they face with cheap imports from Mexico, Sony would not be able to continue manufacturing at its current levels. There are no domestic substitutes for this steel and so NST490 should be excluded from any remedy recommendation made to the President.

⁵ See the following exhibits for those arguments: Coated Steel Sheet for Reinforcement of Heat-Shrinkable Bands; Tin Free Steel for Inner Magnetic Shields; SCM 415, SCM 415 (modified), and NST 490 for CRT frames.

⁶ See Affidavit of John Halac and Louis Dubois of Sony Electronics (**Attachment D**).

⁷ *Id.*

⁸ *Id.*

Attachment A

Foreign Producers

[]

- []
- []
- []

Domestic Producers

- No Known Domestic Producers

Attachment C

Known Substitutable Products: SCM 415 (modified) made by Sumitomo Metal Industries
Ltd. in Tokyo, Japan

U.S. Production: None

U.S. Producers: None

SONY**PUBLIC VERSION**

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16450 West Bernardo Drive, San Diego, California 92127-1898 Telephone (858) 942-8500

**AFFIDAVIT OF JOHN HALAC
PURCHASING SUPERVISOR, SONY ELECTRONICS INC.**

I, John Halac, declare and state to the best of my knowledge and belief, that:

1. I am the Purchasing Supervisor for Sony Electronics in San Diego, California. We currently employ approximately [] employees, and have been operating in San Diego since 1972 -- almost 30 years. We use imported steel from Japan to produce our cathode ray tubes (CRTs) for our televisions. One of the specialty steels we import is [] NST490 hot-rolled steel. This steel is not available domestically, nor is there an adequate substitute available in the United States.
2. This steel was specifically developed for our [] CRT. Sony and Nisshin developed a patent in Japan and so Nisshin is the only manufacturer of this steel. We had to develop a new type of steel that would be able to withstand the higher pressure applied by the larger [] CRT. The traditional SCM415 would deform under this pressure and would not hold up.
3. The NST490 is used to manufacture the A-member of the frame. This is a sheet of solid metal that is stamped into the frame shape. When the aperture grill is welded to the frame, the frame is mechanically compressed. It needs to be able to snap back to tighten the aperture grill and maintain adequate tension. The manufacturing process requires consistent steel with a good memory, meaning it will return to its original form after compressed. This steel also must have superior thermal properties to allow it to withstand heat fluctuations. There is no product produced in the United States that is able to meet the specifications for our [] CRT.
4. The NST490 has several qualities that make it a better steel for our purposes. First, it has magnetic properties that are more forgiving and so, it is more effective. The CRT fires electrons at the screen. The magnetism of the steel effects the movements of the electrons. We cannot have an unfamiliar variation. If we tried to use another type of steel, we would have to redesign several parts of the CRT and the costs of production would escalate. A second quality of the NST490 is its superior strength and its ability to withstand high pressures. Finally, the NST490 has better outgasing than the other steels. Steel is a formulation of metals that deteriorate. When this happens it emits a chemical that could cause the CRT to malfunction. The NST490 is more stable and does not outgas as do the other types of steel.
5. The NST490 costs at least [] more than the SCM415 and we are willing to pay the higher prices because it is the only steel that meets our specifications. We hope to also use a modified SCM415, but we have not yet begun the certification process on that steel. As of today, the only steel we are able to use to produce the [] CRT is the NST490.
6. If the President were to decide to place a 40% tariff on this steel, it would make us significantly less competitive. We consign our CRTs to a Sony television assembly facility in Mexico. The televisions are then imported into the U.S. duty free because the CRTs are NAFTA qualifying. Currently there are [] other locations in the world where Sony makes the [] CRT. They are []. If the duty on our materials went up by 40% we would lose a significant portion of our business to those [] other plants. When our costs rise, we must charge more for our CRTs and this would cause the Mexican manufacturing plant to buy more CRTs from our [] competitors. Also, the imported CRTs would not qualify for NAFTA eligibility treatment, therefore Sony and ultimately the U.S. consumer would be subjected to normal U.S. duties on finished televisions imported from Mexico. A 40% tariff on just this steel would increase our costs of production by [] a year. This number does not take into account the fact that several other types of steel we purchase are also involved in this case and might have increased duties placed upon them.
7. NST490 is not made domestically and increased tariffs would only force us, the customer, to pay higher prices. Quotas on this product would limit our ability to increase our production of CRTs. NST490 should be excluded from any remedy recommendation to the President.


John Halac -- Purchasing Supervisor

Dated: 11/12/01

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SONY

Sony Electronics Inc., Display Device Pittsburgh

Sony Electronics Inc., Sony Technology Center - San Diego

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AFFIDAVIT OF JOHN HALAC, PURCHASING SUPERVISOR
AND LOUIS DUBOIS, PURCHASING AGENT, SONY ELECTRONICS INC.

We, John Halac and Louis Dubois, declare and state to the best of our knowledge and belief, that:

1. Sony Electronics produces color television picture tubes in San Diego, California and Mount Pleasant, Pennsylvania. We use domestic steel as well as imported steel from Japan to produce our cathode ray tubes (CRTs) for our televisions. Specifically, we use several specialty Japanese steel products that are not available domestically. The imported steel includes coated steel sheet for heat-shrinkable bands; steel used for inner magnetic shields ("IMS") for Sony's 42RSN model; hot-rolled SCM 415 frame steel, hot-rolled SCM 415 modified frame steel, and hot-rolled NST490 frame steel used in the production of CRTs. In particular, for FY'02, our Pittsburgh facility will use approximately [] tons of IMS steel for the 42 RSN CRT model, [] tons of steel for heat-shrinkable bands and [] tons of SCM 415 hot rolled steel. For FY'02, our San Diego facility will use approximately [] tons of SCM 415 modified steel, [] tons of NST490 frame steel and [] tons of steel for heat-shrinkable bands. As you can see, the total amount of imported steel used by Sony's plants, only [] tons, is insignificant in comparison to the total amount of imported steel subject to this investigation, but the impact to Sony on any additional duties or quota will be disproportionately significant.

2. Sony is a large employer in the television industry. The Mount Pleasant facility alone employs [] full-time workers with a total payroll approaching []. The San Diego facility employs [] people with a total payroll of approximately [].

3. We face intense competition from foreign CRT producers because they have lower production costs. In fact, former U.S. television manufacturers have moved their facilities to Mexico to benefit from these lower costs. For example, the cost of labor in the United States is significantly higher than the cost of labor in Mexico. From 1995 to 1998, U.S. consumption of CRTs dropped from 14 million units to 10 million units. In 1990, there were 34 television manufacturing facilities in the United States with approximately 26,000 workers. Presently, there are only a few U.S. manufactures of direct view televisions in the United States. Conversely, manufacturing facilities in Mexico have increased from 13 television manufacturers in 1998 to 21 in 2001. This trend has continued and will continue as U.S. television manufacturers are forced to compete with cheaper imports.

4. Placing tariffs on the imported steel would have a dramatic adverse impact on our profitability. Currently there are relatively small profit margins generated by our manufacture of color televisions. As a matter of fact, Sony recently shut-down two CRT production lines for computer monitors because Sony could not compete with the less expensive CRTs produced overseas. This resulted in a loss of [] U.S. jobs in San Diego. There is a constant pressure to reduce costs due to cheaper televisions being imported from foreign sources. This situation is compounded by the fact that television manufacturers in Mexico can export their televisions to the United States duty free due to NAFTA.

5. The application of any additional duties places Sony at a continued disadvantage as compared to our fellow NAFTA members, Mexico and Canada. For example, Mexico has a program called PROSEC that has reduced the duty on Non-NAFTA television parts imported into Mexico to 0.5%. This allows Mexico to produce televisions at reduced cost as well as importing the finished goods into the U.S. and Canada duty free. Canada initiated a similar program in 1994. The United

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States has no parallel program resulting in an average U.S. duty rate of []% for our television parts. Because we have to pay a duty that is [] times higher for television parts, our cost of production is significantly higher than the cost of manufacturing in Mexico and Canada. This places us at a considerable disadvantage with imports of CRTs and televisions from Mexico and Canada. Imposing additional duties on the imported steel we use would only further put Sony at a disadvantage.

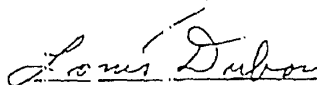
6. Sony has made a commitment to maintain its presence in the United States and will continue to manufacture televisions and CRTs here as long as we are able to remain profitable. Factors such as NAFTA duty preference, reduced transportation costs and efficient use of logistics are significant benefits to the continued manufacture of televisions and CRTs in the United States. Additionally, Sony's CRT and television manufacturing has supported a network of over 1,300 local vendors from whom many of our parts are purchased. Sony is committed to supporting communities where its employees work and live. These suppliers require certain steel products as essential raw materials. We must turn to imported steel when domestic suppliers are unable to provide us products at the quality levels required and delivery times necessary to meet our need.

7. With the intense competition from off-shore television and CRT manufacturers, we cannot afford to pay increased tariffs or suffer any quota on our imported steel. Due to the specific design of our CRTs, Sony is required to purchase HS Band steel, IMS 42RSN steel NST490 frame steel and the SCM 415 frame steel with particular specifications. At this time, we are testing the SCM 415 (modified). Other than the NST490, we believe the SCM 415 (modified) is the only other steel able to meet our needs for our 29" CRT. Our imported steel is not available domestically. Even if a comparable steel were available, we would have to redesign the various parts of the CRT and that would be cost-prohibitive. We estimate that a 40% tariff on our imported steel we use would raise our costs of production by approximately [] in our Mount Pleasant facility and [] in our San Diego facility. Given that intense competition has already minimized our profit margin on CRTs, we would not be able to continue manufacturing at our current levels.

8. This steel is not available domestically and placing quotas would only limit the amount Sony can expand production of its televisions. In addition, supply disruptions caused by quotas could restrict current production levels. A tariff or quota would not help domestic steel producers as they do not compete with these products. Increased tariffs or quotas would only force us to drastically cut our revenue and might ultimately force us to move our facilities to lower-cost areas of the world. Steel used to produce HS Bands, IMS for the 42RSN model, NST490 frame, SCM 415 frame and SCM 415 (modified) frame steel should all be excluded from any remedy recommendation to the President.



John Halac,
Purchasing Supervisor
SONY Display Device - San Diego



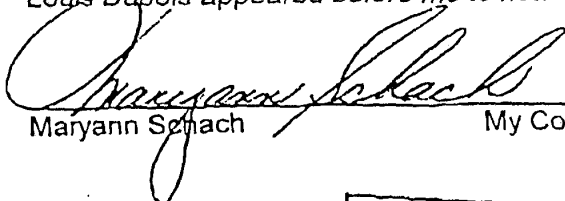
Louis Dubois
Purchasing Agent
SONY Display Device, Pittsburgh

Dated: November 12, 2001

Westmoreland County
Commonwealth of Pennsylvania

On this the 12th Day of November, 2001

Louis Dubois appeared before me to notarize his signature.



Maryann Schach

My Commission expires September 14, 2002

